

Message Text

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PAGE 01 MEXICO 01378 141845Z

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SUBJ: MEXICAN TEXTILE INDUSTRY FACES CRISIS

REF: MEXICO A-413, SEPT 10, 1974

1. THE SHARP DECLINE IN WORLD DEMAND FOR TEXTILES BEGINNING IN SECOND HALF OF 1974 HAS HAD SEVERE IMPACT ON MEXICAN TEXTILE INDUSTRY. HIGH DOMESTIC INFLATION IN 1974, EXCEEDING 20 PERCENT, CAUSED SUBSTANTIAL DROP IN LOCAL DEMAND FOR APPAREL, WITH MEXICAN CONSUMERS SPENDING HIGHER PERCENTAGE OF THEIR LIMITED BUDGETS ON ESSENTIALS SUCH AS FOOD AND HOUSING. INDUSTRIALISTS AND WHOLESALERS IN IMPORTING COUNTRIES SPECULATED IN SECOND HALF OF 1973 AND FIRST HALF OF 1974, BUILDING UP LARGE INVENTORIES. WITH DROP IN BOTH DOMESTIC AND EXPORT DEMAND, PRICES HAVE BEEN FALLING.

2. MEXICAN COTTON TEXTILE INDUSTRY MADE GREAT STRIDES OVER PAST DECADE IN INCREASING VOLUME OF ITS EXPORTS, INCREASING OVERSEAS SALES FROM US\$10.3 MILLION IN 1969
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PAGE 02 MEXICO 01378 141845Z

TO US\$72 MILLION IN 1973. INDUSTRY HAD ANTICIPATED

EXPORT SALES OF \$120 MILLION IN 1974 BUT AS RESULT OF DROP IN DEMAND BEGINNING IN JULY OF THAT YEAR ACTUAL SALES ONLY AMOUNTED TO \$92 MILLION. IN 1973, MEXICO EXPORTED 35,000 TONS OF COTTON TEXTILES WORLDWIDE WHICH REPRESENTED 22 PERCENT OF TOTAL PRODUCTION; THE CORRESPONDING PERCENTAGE IN 1969 WAS 7 PERCENT. WHEREAS ALMOST ALL COTTON TEXTILE EXPORTS WENT TO U.S. PRIOR TO LTA, SOME 60 PERCENT OF MEXICO'S TRADE IN THIS COMMODITY WAS DESTINED FOR EUROPEAN BUYERS IN 1973.

3. MEXICAN COTTON TEXTILE EXPORTS TO U.S. MARKET ARE DOWN 70 PERCENT IN FIRST NINE MONTHS OF FOURTH YEAR OF BILATERAL COTTON TEXTILE AGREEMENT (MAY 1, 1974 - APRIL 30, 1975) COMPARED WITH SAME PERIOD OF THIRD AGREEMENT YEAR. EXPORTS TO EUROPEAN MARKET, ON OTHER HAND, ARE DOWN ONLY 20-30 PERCENT. IN GROUP I, MEXICO HAS FILLED 25 PERCENT OF ITS QUOTA. IN GROUP II, IT HAS BEEN ABLE TO UTILIZE 31 PERCENT OF QUOTA (11 PERCENT IN CATEGORIES 9/10; 54 PERCENT IN 22/23; 27 PERCENT IN 26/27/64; AND 2 PERCENT IN 26/27 (DUCK ONLY)). CORRESPONDING PERCENTAGE IN GROUP III IS ABOUT 25 PERCENT, MAINLY IN CATEGORIES 49, 50 AND 51. PROJECTED EXPORT SALES IN CY 1975 ARE OPTIMISTICALLY SET AT \$56 MILLION OF WHICH \$24 MILLION WOULD BE DESTINED FOR U.S., BUT ACTUAL SALES WILL PROBABLY BE LESS.

4. SHARP DROP IN DEMAND AND PRICE HAS CREATED SERIOUS UNEMPLOYMENT PROBLEM IN COTTON TEXTILE INDUSTRY. THREE MAJOR YARN AND FABRIC PLANTS WENT OUT OF BUSINESS IN JANUARY: SANTA CLARA IN MEXICO STATE (550 WORKERS); LA CAROLINA Y REFORMA IN GUANAJUATO (1300 WORKERS); AND TEXTILES SONORA IN HERMOSILLO (600 WORKERS). ALL PLANTS THAT FORMERLY WORKED THIRD AND FOURTH SHIFTS HAVE ELIMINATED THEM AND MOST MILLS ARE OPERATING ONLY FOUR OR FIVE DAYS PER WEEK RATHER THAN SIX OR SEVEN WHICH WAS FAIRLY COMMON IN 1974. COTTON TEXTILE INDUSTRY EMPLOYED SOME 60,000 WORKERS IN JULY 1974. SINCE THAT MONTH, 10,000 HAVE BEEN LAID OFF, RESULTING IN UNEMPLOYMENT RATE OF ROUGHLY 16 PERCENT.

5. INVENTORIES ON HAND OF COTTON TEXTILES ARE REACHING LIMITED OFFICIAL USE

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PAGE 03 MEXICO 01378 141845Z

ALARMING PROPORTIONS. WHERE PREVIOUSLY MOST MANUFACTURERS KEPT INVENTORIES OF LESS THAN 30 DAYS, INVENTORIES OF THREE MONTHS OR MORE ARE COMMON TODAY. COST OF FINANCING AND STORAGE HAS RISEN ACCORDINGLY.

6. ARTIFICIAL FIBER AND WOOL TEXTILES HAVE ALSO BEEN AFFECTED BY INFLATION IN MEXICO AND RECESSION IN U.S. BUT TO LESSER EXTENT THAN COTTON. MORE THAN 80 PERCENT OF

MEXICO'S EXPORTS OF ARTIFICIAL FIBER TEXTILES TO U.S. ARE MADE UP OF APPAREL PRODUCED BY IN-BOND ASSEMBLY PLANTS AND ENTER UNDER 807 OF THE USTS. THE IN-BOND FIRMS ARE ALSO REPORTING WIDESPREAD CANCELLATION OF CONTRACTS. WHILE THEY HAVE MADE SUBSTANTIAL REDUCTIONS IN PERSONNEL, FEW HAVE ACTUALLY GONE OUT OF BUSINESS TO DATE. WHEREAS MEXICO WAS FORMERLY OPTIMISTIC ABOUT CHANCES FOR ITS LOCALLY PRODUCED ARTIFICIAL FIBER TEXTILES TO BECOME COMPETITIVE IN EXPORT PRICE, PARTICULARLY IN LABOR-INTENSIVE APPAREL SECTOR, THIS IS NO LONGER CASE. MAINLY AS RESULT OF THREE WAGE INCREASES IN LESS THAN TWO YEARS, TOTALLY MORE THAN 60 PERCENT, IT IS NOT ANTICIPATED THAT MEXICO WILL BE IN POSITION TO PLACE LOCALLY PRODUCED ARTIFICIAL FIBER TEXTILES ON WORLD MARKETS FOR AT LEAST ANOTHER THREE YEARS.

7. IN THIRD AGREEMENT YEAR (1973-74), MEXICO EXPORTED 100,595,524 SYE IN COTTON TEXTILES TO U.S. SHOULD RECESSION END AND MORE NORMAL MARKET CONDITIONS RETURN, MEXICO BELIEVES IT COULD EASILY INCREASE ITS COTTON TEXTILE EXPORTS TO U.S. UP TO 200 MILLION SYE WITHIN NEEXT THREE YEARS, QUOTA PERMITTING. DESPITE THIS OPTIMISTIC PROJECTION, ACTUAL EXPORTS OF COTTON TEXTILES TO U.S. IN FOURTH AGREEMENT YEAR (1974-75) WILL PROBABLY BE AROUND 50 MILLION SYE. NEVERTHELESS, USG SHOULD ANTICIPATE THAT GOM DELEGATION TO BILATERAL TEXTILE CONSULTATIONS IN WASHINGTON BEGINNING FEB 24 WILL FIGHT FOR GLOBAL RESTRAINT LEVEL THAT WOULD PERMIT MEXICO TO POTENTIALLY EXPORT 200 MILLION SYE IN COTTON TEXTILES TO U.S. BY THIRD YEAR OF NEW BILATERAL.
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